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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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THE GENERIC INVESTIGATION OF THE
DEVELOPMENT OF A RENEWABLE
PORTFOLIO STANDARD AS A PORTION OF
THE RETAIL ELECTRIC COMPETITION
RULES

DOCKET NO. E-00000A-99-0205

RESPONSE OF COMMONWEALTH
TO THE DEVELOPMENT OF A
RENEWABLE PORTFOLIO
STANDARD

Commonwealth Energy Corporation ("Commonwealth") responds to the questions provided in the Procedural Order dated June 16, 1999 regarding the development of a renewable portfolio standard through the attached Direct Testimony of Frederick M. Bloom.

RESPECTFULLY submitted this 30th day of July, 1999.

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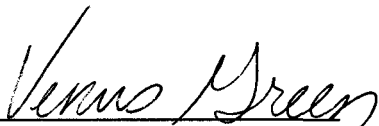
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1
2 **BEFORE THE**
3 **ARIZONA CORPORATION COMMISSION**
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10 **DIRECT TESTIMONY OF FREDERICK M. BLOOM**
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20 **On behalf of**
21 **Commonwealth Energy Corporation**
22 **Docket No. E00000A-99-0205**
23
24
25
26

27 **July 30, 1999**

DIRECT TESTIMONY OF FREDERICK M. BLOOM

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Frederick Bloom and my business address is 15901 Red Hill Avenue, Suite 100, Tustin, California 92780.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Chairman of the Board and Chief Executive Officer of Commonwealth Energy Corporation ("Commonwealth"). In 1997, I co-founded Commonwealth, which serves about 60,000 residential, small business, commercial and industrial and government customers in California. We are actively pursuing retail electric customers in other states, including Arizona.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Commonwealth has had experience in California in implementing the "green power" program. Commonwealth is the largest retailer of "green power" in California. I wish to share what we learned through our experience.

1.A. Should there be an Environmental Standard in Arizona and why?

Each state should adopt its own policies on environmental standards. Therefore, I do not have an opinion.

1.B. If so, what should be the objectives of an Environmental Standard and who should bear the costs of the standard and how should those costs be collected?

If an environmental standard is developed, it should be structured in such a way as not to distort competitive market prices and it should apply equally to all competitors and utilities.

2. Will the proposed new Portfolio Standard meet the desired objectives or would you propose an alternative mechanism?

1 If a new portfolio standard is developed, the availability of the technology and its
2 reasonable cost should be assessed before its adopted. In general, I support economic incentives
3 rather than regulated mandates, in the development of a portfolio standard.

4 **3. Are you supportive of the proposed Portfolio Standard and, if not, describe any**
5 **modifications that you would make to the proposed Portfolio Standard (including**
6 **responses to 6 below) or describe your Company's proposed alternative mechanism.**

7 As of this time, I have not analyzed in detail the proposed portfolio standard.

8 **4. If you are proposing an alternative to the proposed Standard, include a detailed**
9 **description of : (1) technologies to be included; (2) timing; (3) any incentives; (4) cost**
10 **projection of the alternative over the life of the alternative; (5) impact on customer**
11 **rates; (6) all major assumptions for the proposed alternative.**

12 I have no comment, but I'm most interested in what types of alternatives might be
13 proposed by others.

14 **5.A. Should the Standard be imposed only on sales in the competitive market?**

15 No, I believe if any standard is adopted it should apply across the board to all sales,
16 whether competitive or through the standard offer.

17 **5.B. Instead of implementing a Standard as part of the Retail Electric Competition Rules,**
18 **should the market (the retail consumers themselves) dictate the amount of "green"**
19 **power to include in competitive energy choices? Should the Commission encourage**
20 **Energy Service Providers to offer programs, instead of mandating rigid targets,**
21 **allowing the market for such products to develop naturally?**

22 In my experience, incentives work better than mandates, particularly when we are dealing
23 with a new competitive environment which encourages new technologies and creative products.
24 In general, I'm supportive of "green" power marketing programs.

25 **5.C. Would it be appropriate to include recovery of costs of renewable systems in a**
26 **systems benefits charge rather than the general cost/rate structure?**

1 In California, a partial credit is given for the recovery of renewable costs under a
2 framework similar to the Arizona system benefit charge. From my management prospective, I
3 believe it would be appropriate to use a line item to disclose the additional cost of any system
4 benefit credit or charge, rather than blend it into a tariff.

5 **6. Please comment on the following aspects of the proposed new Portfolio Standard:**

6 **6.a. New section N allows for “environmental-friendly renewable electricity technologies”**
7 **other than solar. Which technologies should be included in this subsection? Would**
8 **those technologies be available in Arizona or work in Arizona?**

9 In general, I’m supportive of a flexible approach to the “environmental-friendly renewable
10 electricity technologies” which might encourage other opportunities for meeting environmental
11 objectives.

12 **6.b. In subsections A and B of the proposed Portfolio Standard, a schedule of portfolio**
13 **percentages is defined. Is the size of portfolio percentage and timing of increases a**
14 **reasonable strategy to be included in the competition rules? What alternatives would**
15 **you propose and why?**

16 Commonwealth has not evaluated the reasonableness of these percentages, although I
17 believe it is important for the portfolio standard to be realistic, as to the availability of products,
18 the lead time required, and of course the cost associated with any mandated standard.

19 **6.c. The proposed Portfolio Standard includes incentives for in-state manufacturing and**
20 **in-state installation of solar and other environmentally-friendly technologies. Are**
21 **those incentives appropriate and substantial enough to have a positive impact on**
22 **Arizona’s economy and on Arizona economic development? What alternatives would**
23 **you propose and why?**

24 Generally, I don’t have an opinion on the in-state incentives for solar and other
25 environmentally-friendly manufacturing. However, I would note that new entrants might find it
26 harder to enter the market, because incoming utilities will likely have closer ties to local
27

1 manufacturers who could offer the incumbent utility greater discounts and a wider customer base
2 in which to spread these added costs. To that extent, the in-state incentives may create a barrier
3 to entry.

4 **6.d. What long-term benefits will the proposed Portfolio Standard have on the State of**
5 **Arizona and its residents? Specific items to be addressed include job creation,**
6 **maintenance of energy dollars in the local economy, load diversification, and**
7 **pollution prevention.**

8 I have not studied the long-term benefits that might have to be derived from the proposed
9 portfolio standard.

10 **6.e. What would the impact be on an average competitive (residential and commercial)**
11 **customer's monthly bill (assume 1,000 kWh/month usage for residential) of the**
12 **proposed Portfolio Standard? (Please state assumptions, including technology costs).**

13 I do not have an answer as to the potential impacts on the average customer's monthly bill,
14 but I do believe that this is an important consideration.

15 **6.f. Section 1609.B.2 provides for determination of a cost/benefit point in 2001 prior to**
16 **an increase in the percentage in 2002. Is it appropriate to determine the cost/benefits**
17 **point during this proceeding (and the corresponding impact on customers) or in 2001?**
18 **Should the Commission cap the impact that the Portfolio Standard may have on**
19 **customers?**

20 As I stated in the proceeding answer, it would be wise to closely assess the cost-benefit
21 relationship of any portfolio standard and its impacts on electric competition and customer choice.

22 **6.g. Section 1609.I of the proposed Portfolio Standard allows for the "banking" or sale**
23 **of excess solar kWh. This could create a trading program, similar to the EPA's**
24 **sulfur dioxide trading program. Do you have any suggestions about creating a credit**
25 **trading or banking program?**

1 The banking or trading of solar credits might have merit. But I believe it might evolve
2 over time, and it might be something to consider after the competitive electric market matures.
3 I believe that it might be premature to address this feature at this time.

4 **6.h. Section 1609.F provides for penalties if ESPs fail to meet the proposed Portfolio**
5 **Standard. Are there additional provisions needed to require ESPs to issue RFPs or**
6 **negotiate contracts in a timely fashion rather than merely paying the penalty?**

7 The penalties in the proposal are already substantial. Before raising the bar, I believe it
8 might be best to first see how the "green" power market efforts occur under the natural
9 competitive environment.

10 **7. Should the proposed standard or any alternative that you are proposing apply to**
11 **Standard Offer Customers in 2001? If yes, should the standard or alternative as**
12 **applied to Standard Offer be energy driving (kWh) or dollar driven to limit or cap**
13 **the impact on Standard Offer Customers? What would the impact be on an average**
14 **residential and commercial customer's monthly bill? (Please state assumptions,**
15 **including technology costs.) What mechanism should the Commission put in place**
16 **to recover the costs from Standard Offer Customers?**

17 As I mentioned previously, any portfolio standard should apply to standard offer customers
18 if it is to apply to those seeking direct access. As to the other parts of this question, I have not
19 conducted any study.

20 **8. Other relevant comments?**

21 I have none at this time.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 **A.** Yes, it does.